



JOHN CHIANG
California State Controller

July 9, 2013

Joanne Schultz, Ph.D., Vice President of Administrative Services
Merced Community College District
3600 M Street
Merced, CA 95348

Dear Dr. Schultz:

The State Controller's Office reviewed the costs claimed by the Merced Community College District for the legislatively mandated Integrated Waste Management Program (Chapter 1116, Statutes of 1992; and Chapter 764, Statutes of 1999) for the period of July 1, 2003, through June 30, 2010. Our review was limited to ensuring that offsetting savings were properly reported in accordance with program requirements.

The district claimed \$407,449 for the mandated program. Our review found that \$135,442 is allowable and \$272,007 is unallowable. The costs are unallowable because the district did not report any offsetting savings realized as a result of implementing its integrated waste management plan, as described in the attached Summary of Program Costs, Summary of Offsetting Savings Calculations, and the Finding and Recommendation.

For the fiscal year (FY) 2003-04 claim, the State paid the district \$45,286 from funds appropriated under Chapter 724, Statutes of 2010. Our review found that \$19,490 is allowable. The State will apply \$25,796 against any balances of unpaid mandated-program claims due the district as of October 19, 2010.

For the FY 2004-05 through FY 2009-10 claims, the State made no payment to the district. Our review found that \$115,952 is allowable. The State will pay that amount, contingent upon available appropriations.

We informed Joseph Allison, Director of Business and Fiscal Services, of the review results via email on May 20, 2013. On May 30, 2013, Mr. Allison responded that the district does not dispute the finding.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

Attachments

RE: S13-MCC-946

cc: Joseph Allison, Director of Business and Fiscal Services
Merced Community College District
Rick Souhrada, Director of Maintenance, Operations, Grounds Transportation and
Facilities Construction
Merced Community College District
Christine Atalig, Specialist, College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Mollie Quasebarth, Principal Program Budget Analyst
Education Systems Unit, California Department of Finance
Mario Rodriguez, Finance Budget Analyst
Education Systems Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Attachment 1— Summary of Program Costs July 1, 2003, through June 30, 2010

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries and benefits	\$ 43,390	\$ 43,390	\$ —
Contract services	2,018	2,018	—
Total direct costs	45,408	45,408	—
Indirect costs	3,766	3,766	—
Total direct and indirect costs	49,174	49,174	—
Less offsetting savings ²	—	(29,684)	(29,684)
Total program costs	<u>\$ 49,174</u>	19,490	<u>\$ (29,684)</u>
Less amount paid by the State ³		(45,286)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (25,796)</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries and benefits	\$ 44,421	\$ 44,421	\$ —
Contract services	4,915	4,915	—
Total direct costs	49,336	49,336	—
Indirect costs	5,726	5,726	—
Total direct and indirect costs	55,062	55,062	—
Less offsetting savings ²	—	(38,935)	(38,935)
Total program costs	<u>\$ 55,062</u>	16,127	<u>\$ (38,935)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 16,127</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries and benefits	\$ 46,243	\$ 46,243	\$ —
Contract services	33,421	33,421	—
Total direct costs	79,664	79,664	—
Indirect costs	6,237	6,237	—
Total direct and indirect costs	85,901	85,901	—
Less offsetting savings ²	—	(41,621)	(41,621)
Total program costs	<u>\$ 85,901</u>	44,280	<u>\$ (41,621)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 44,280</u>	

Attachment 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustment ¹</u>
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries and benefits	\$ 57,526	\$ 57,526	\$ —
Contract services	32,104	32,104	—
Total direct costs	89,630	89,630	—
Indirect costs	8,343	8,343	—
Total direct and indirect costs	97,973	97,973	—
Less offsetting savings ²	—	(42,428)	(42,428)
Total program costs	<u>\$ 97,973</u>	55,545	<u>\$ (42,428)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 55,545</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries and benefits	\$ 17,363	\$ 17,363	\$ —
Contract services	10,469	10,469	—
Total direct costs	27,832	27,832	—
Indirect costs	5,281	5,281	—
Total direct and indirect costs	33,113	33,113	—
Less offsetting savings ²	—	(44,647)	(44,647)
Subtotal	33,113	(11,534)	(44,647)
Adjustment to eliminate negative balance	—	11,534	11,534
Total program costs	<u>\$ 33,113</u>	—	<u>\$ (33,113)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries and benefits	\$ 21,357	\$ 21,357	\$ —
Contract services	9,855	9,855	—
Total direct costs	31,212	31,212	—
Indirect costs	7,846	7,846	—
Total direct and indirect costs	39,058	39,058	—
Less offsetting savings ²	—	(47,804)	(47,804)
Subtotal	39,058	(8,746)	(47,804)
Adjustment to eliminate negative balance	—	8,746	8,746
Total program costs	<u>\$ 39,058</u>	—	<u>\$ (39,058)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	

Attachment 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustment ¹</u>
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries and benefits	\$ 22,910	\$ 22,910	\$ —
Contract services	15,674	15,674	—
Total direct costs	38,584	38,584	—
Indirect costs	8,584	8,584	—
Total direct and indirect costs	47,168	47,168	—
Less offsetting savings ²	—	(50,059)	(50,059)
Subtotal	47,168	(2,891)	(50,059)
Adjustment to eliminate negative balance	—	2,891	2,891
Total program costs	<u>\$ 47,168</u>	—	<u>\$ (47,168)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>Summary July 1, 2003, through June 30, 2010</u>			
Direct costs:			
Salaries and benefits	\$ 253,210	\$ 253,210	\$ —
Contract services	108,456	108,456	—
Total direct costs	361,666	361,666	—
Indirect costs	45,783	45,783	—
Total direct and indirect costs	407,449	407,449	—
Less offsetting savings ²	—	(295,178)	(295,178)
Subtotal	407,449	112,271	(295,178)
Adjustment to eliminate negative balance	—	23,171	23,171
Total program costs	<u>\$ 407,449</u>	135,442	<u>\$ (272,007)</u>
Less amount paid by the State		(45,286)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 90,156</u>	

¹ See Attachment 3, Finding and Recommendation² See Attachment 2, Summary of Offsetting Savings Calculations³ Payment from funds appropriated under Chapter 724, Statutes of 2010 (Assembly Bill No. 1610)

Attachment 2— Summary of Offsetting Savings Calculations July 1, 2003, through June 30, 2010

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review Adjustment ¹
		July – December	January – June	Total	
<u>July 1, 2003, through June 30, 2004</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	40.49%	÷	50.93%	
Allocated diversion percentage ²		100.00%	98.17%		
Tonnage diverted	x	(314.65)	x	(479.75)	
Statewide average landfill fee per ton	x \$	36.83	x \$	38.42	
Total offsetting savings, FY 2003-04	\$ —	\$ (11,589)	\$ (18,095)	\$ (29,684)	\$ (29,684)
<u>July 1, 2004, through June 30, 2005</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	50.93%	÷	54.15%	
Allocated diversion percentage		98.17%	92.34%		
Tonnage diverted	x	(479.75)	x	(578.70)	
Statewide average landfill fee per ton	x \$	38.42	x \$	39.00	
Total offsetting savings, FY 2004-05	\$ —	\$ (18,095)	\$ (20,840)	\$ (38,935)	\$ (38,935)
<u>July 1, 2005, through June 30, 2006</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	54.15%	÷	52.44%	
Allocated diversion percentage		92.34%	95.35%		
Tonnage diverted	x	(578.70)	x	(473.80)	
Statewide average landfill fee per ton	x \$	39.00	x \$	46.00	
Total offsetting savings, FY 2005-06	\$ —	\$ (20,840)	\$ (20,781)	\$ (41,621)	\$ (41,621)
<u>July 1, 2006, through June 30, 2007</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	52.44%	÷	52.32%	
Allocated diversion percentage		95.35%	95.57%		
Tonnage diverted	x	(473.80)	x	(471.90)	
Statewide average landfill fee per ton	x \$	46.00	x \$	48.00	
Total offsetting savings, FY 2006-07	\$ —	\$ (20,781)	\$ (21,647)	\$ (42,428)	\$ (42,428)
<u>July 1, 2007, through June 30, 2008</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	52.32%	÷	52.32%	
Allocated diversion percentage		95.57%	95.57%		
Tonnage diverted	x	(471.90)	x	(471.90)	
Statewide average landfill fee per ton	x \$	48.00	x \$	51.00	
Total offsetting savings, FY 2007-08	\$ —	\$ (21,647)	\$ (23,000)	\$ (44,647)	\$ (44,647)

Attachment 2— (continued)

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review Adjustment ¹
		July – December	January – June	Total	
<u>July 1, 2008, through June 30, 2009</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 52.32%	÷ 52.32%		
Allocated diversion percentage		95.57%	95.57%		
Tonnage diverted	x	(471.90)	x (471.90)		
Statewide average landfill fee per ton	x \$	51.00	x \$ 55.00		
Total offsetting savings, FY 2008-09	\$ —	\$ (23,000)	\$ (24,804)	\$ (47,804)	\$ (47,804)
<u>July 1, 2009, through June 30, 2010</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 52.32%	÷ 52.32%		
Allocated diversion percentage		95.57%	95.57%		
Tonnage diverted	x	(471.90)	x (471.90)		
Statewide average landfill fee per ton	x \$	55.00	x \$ 56.00		
Total offsetting savings, FY 2009-10	\$ —	\$ (24,804)	\$ (25,255)	\$ (50,059)	\$ (50,059)
<u>Total offsetting savings July 1, 2003, through June 30, 2010</u>	\$ —	\$ (140,756)	\$ (154,422)	\$ (295,178)	\$ (295,178)

¹ See Attachment 3, Finding and Recommendation

² The district did not achieve the maximum allowable diversion percentage in 2003. Therefore, 100% of the tonnage diverted is offsetting savings realized by the district.

Attachment 3— Finding and Recommendation July 1, 2003, through June 30, 2010

FINDING— Unreported offsetting savings

The district did not report any offsetting savings on its mandated cost claims for the review period. We determined that the district realized savings of \$295,178 from implementation of its Integrated Waste Management (IWM) plan.

The following table summarizes the unreported offsetting savings by fiscal year:

<u>Fiscal Year</u>	<u>Offsetting Savings Reported</u>	<u>Offsetting Savings Realized</u>	<u>Review Adjustment</u>
2003-04	\$ -	\$ (29,684)	\$ (29,684)
2004-05	-	(38,935)	(38,935)
2005-06	-	(41,621)	(41,621)
2006-07	-	(42,428)	(42,428)
2007-08	-	(44,647)	(44,647)
2008-09	-	(47,804)	(47,804)
2009-10	-	(50,059)	(50,059)
Total	<u>\$ -</u>	<u>\$ (295,178)</u>	<u>\$ (295,178)</u>

On March 25, 2004, the Commission on State Mandates (CSM) adopted the statement of decision for the IWM Program. The CSM determined that Chapter 1116, Statutes of 1992; and Chapter 764, Statutes of 1999, imposed upon community college districts a state mandate reimbursable under Government Code section 17561, commencing July 1, 1999.

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The CSM adopted the parameters and guidelines on March 30, 2005.

In March 2007, the Department of Finance and the IWM Board filed a petition for a writ of mandate requesting the CSM to issue new parameters and guidelines that give full consideration to the community colleges' cost savings (e.g. avoided landfill disposal fees) and revenues (from recyclables) by complying with the test claim statutes. The Judgment and a Writ of Mandate were issued on June 30, 2008, ordering the CSM to amend the parameters and guidelines to require community college districts to identify, and offset from their claims, cost savings realized as a result of implementing their plan.

On September 26, 2008, the CSM amended the parameters and guidelines to the original period of reimbursement because the court's decision interprets the test claim statutes as a question of law.

In compliance with Government Code section 17558, the State Controller's Office issues claiming instructions to assist community college districts in claiming mandated-program reimbursable costs.

The amended parameters and guidelines (section VIII—Offsetting Cost Savings) state:

Reduced or avoided costs realized from implementation of the community college districts' Integrated Waste Management Plans shall be identified and offset from this claim as cost savings, consistent with the direction for revenue in Public Contract Code sections 12167 and 12167.1.

Public Contract Code sections 12167 and 12167.1 require agencies in state-owned and state-leased buildings to deposit all revenues from the sale of recyclables into the IWM Account in the IWM Fund, which are continuously appropriated to the Board for the purposes of offsetting recycling program costs. For the review period, the district did not deposit any revenue into the IWM Account in the IWM Fund. We have determined that the district had reduced or avoided costs realized from implementation of its IWM plan that it did not identify and offset from its claims as cost savings.

Offsetting Savings Calculations

The CSM's Final Staff Analysis of the proposed amendments to the parameters and guidelines (Item #8—CSM hearing of September 26, 2008) state:

...cost savings may be calculated from the annual solid waste disposal reduction or diversion rates that community colleges must annually report to the Board pursuant to Public Resources Code section 42926, subdivision (b) (1).

To compute the savings amount, we multiplied the allocated diversion percentage by the tonnage diverted, and by the avoided landfill disposal fee, as follows:

$$\begin{array}{rcccl}
 & \text{Allocated Diversion \%} & & & \\
 & \overbrace{\hspace{1.5cm}} & & & \\
 \text{Offsetting} & \text{Maximum} & & \text{Avoided} & \\
 \text{Savings} & \text{Allowable} & & \text{Landfill} & \\
 \text{Realized} & = \frac{\text{Diversion \%}}{\text{Actual Diversion \%}} \times \text{Tonnage Diverted} \times \text{Disposal Fee (per Ton)} & & &
 \end{array}$$

This calculation determines the cost that the district did not incur for solid waste disposal as a result of implementing its IWM plan. The offsetting savings calculations are presented in Attachment 2 – Summary of Offsetting Savings Calculations.

Allocated Diversion Percentage

Public Resource Code section 42921 requires districts to achieve a solid waste diversion percentage of 25% by January 1, 2002, and a 50% diversion percentage by January 1, 2004. The parameters and guidelines state that districts will be reimbursed for all mandated costs incurred to achieve these levels, without reduction when they fall short of stated goals, but not for amounts used to exceed these state-mandated levels. Therefore, we allocated the offsetting savings to be consistent with the requirements of the mandated program.

For calendar years 2003 through 2007, we used the actual diversion percentage reported by the district to CalRecycle (formerly the IWM Board) pursuant to Public Resources Code section 42926, subdivision (b) (1).

In 2008, CalRecycle began focusing on “per-capita disposal” instead of “diversion percentage.” As a result, CalRecycle stopped requiring community college districts to report the actual amount of tonnage diverted. Consequently, the annual reports no longer identify a “diversion percentage.” Therefore, we used the 2007 diversion percentage to calculate the offsetting savings for FY 2007-08, FY 2008-09, and FY 2009-10. The district did not provide documentation supporting a different diversion percentage.

Tonnage Diverted

The tonnage diverted is solid waste that the district recycled, composted, and kept out of the landfill.

For calendar years 2003 through 2007, we used the actual tonnage diverted, as reported by the district to CalRecycle pursuant to Public Resources Code section 42926, subdivision (b) (1).

As previously noted, in 2008, CalRecycle stopped requiring community college districts to report the actual amount of tonnage diverted. Therefore, we used the tonnage diverted in 2007 to calculate the offsetting savings for FY 2007-08, FY 2008-09, and FY 2009-10. The district did not provide documentation supporting a different tonnage amount.

Avoided Landfill Disposal Fee (per Ton)

The avoided landfill disposal fee is used to calculate realized savings because the district no longer incurs a cost to dispose of the diverted tonnage at the landfill. For each fiscal year in the review period, we used the statewide average disposal fee provided by CalRecycle. The district did not provide documentation supporting a different disposal fee.

Recommendation

We recommend that the district offset all savings realized from implementation of its IWM plan.